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C O N F I D E N T I A L SECTION 01 OF 03 BERLIN 000237

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TAGS: [EFIN](#) [ECON](#) [ELAB](#) [PREL](#) [GM](#)
SUBJECT: BERLIN MINI SUMMIT HIGHLIGHTS GERMAN G-20
PRIORITIES

REF: A. BERLIN 1476
[1](#)B. BERLIN 0159

Classified By: Charge d'Affaires John M. Koenig for reason 1.4 (b,d).

[1](#)1. (C) SUMMARY: The February 22 gathering of European G-20 leaders in Berlin enabled Germany to help define the European agenda for financial reform at the London Summit in April. EU leaders signed onto Chancellor Merkel's idea for a "Charter for Sustainable Economic Activity" and vowed to combat protectionism. Other elements agreed to at the Summit -- regulating hedge funds, overseeing credit rating agencies, closing tax havens -- are longstanding priorities of Merkel and her key ally in the Coalition Government, Finance Minister Steinbrueck. There was no agreement, however, on assisting eurozone members and central and eastern European economies struggling with the financial crisis. Still, the "Mini Summit" allowed the Chancellor to strengthen her hand in preparation for possible discussions with President Obama in March. It also showcased her leadership for a domestic audience, reinforcing her image as the Chancellor candidate who can best lead Germany out of the economic crisis. END SUMMARY.

PARTICIPATION IN THE "MINI SUMMIT"

[1](#)2. (U) On February 22 German Chancellor Angela Merkel gathered together key leaders of European countries that will participate in the April 2 G-20 Summit. In attendance were French President Nicolas Sarkozy, UK Prime Minister Gordon Brown, Italian Prime Minister Silvio Berlusconi, Spanish Prime Minister Jose Luis Rodriguez Zapatero, Dutch Prime Minister Jan Peter Balkenende, Czech Prime Minister Mirek Topolaneck, EU Commission President Jose Manuel Barroso, European Central Bank (ECB) President Jean-Claude Trichet, Bank of England Governor Mervyn King, and Eurogroup Chairman Jean-Claude Juncker. The stated purpose of the meeting was to coordinate a European position ahead of the G-20 Summit.

MERKEL ACHIEVES OBJECTIVES

¶3. (C) Prior to the gathering in Berlin, Horst Classen, an economic advisor to the Chancellor, had told EMIN that the Chancellor hoped for endorsement of her proposal for a "Charter for Sustainable Economic Activity." (NOTE: Key points of the Charter, which Merkel had announced following an earlier meeting with heads of the International Monetary Fund (IMF), World Bank, World Trade Organization (WTO), Organization for Economic Cooperation and Development (OECD), and International Labor Organization (ILO) include: 1) developing a framework to prevent future crises; 2) strengthening the international financial architecture; 3) promoting free trade; 4) combating climate change; and 5) fighting poverty in developing countries. (REF B)). Classen also said Merkel would push for a strong statement against what she regards as a rising tide of protectionism.

¶4. (C) The Chair's Summary as released by the Chancellor's office indicates that she was partially successful in meeting these objectives at the "Mini Summit." European leaders duly supported a "broad Charter of principles for financial regulation" consistent with "sustainable economic activity." The Chair's Summary claimed the G-8 had previously endorsed the Charter idea, saying that "work on its first building block - a set of common principles and standards on propriety, integrity, and transparency of economic and financial activity - has already been started within the G8-process." In fact, despite their pledge to revisit the Charter in London, it was unclear how much enthusiasm the Charter had generated in London, Paris, Rome and other

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European capitals. Missing from the statement, too, was any mention of Merkel's earlier proposal for a "World Economic Council," a concept that Classen later described as "still a rather vague idea" with little traction within the EU.

¶5. (U) The Chancellor did succeed in sounding the alarm bell about protectionism. Leaders promised to "safeguard the global economy against protectionism," and called for a breakthrough in the Doha Round. They committed to implementing stimulus measures and financial rescue plans (including auto subsidies) in a manner that "limits distortions to competition," and will ask the G-20 to develop common principles to mitigate "unilateral advantages." Press reports noted that French President Sarkozy carefully avoided the protectionist noises he had made only a few weeks earlier.

MERKEL AND STEINBRUECK IN SYNC

¶6. (C) The Summit was a major success for German Finance Minister Peer Steinbrueck, who had presented an eight-point plan for financial market stability to G-7 leaders in Washington ahead of the G-20 Summit last November (REF A). The statement released by the Chancellor's office following the Berlin meeting reflects his thinking, some of which is now also included in the action plan from the Washington Summit. Above all, European leaders agreed that "all financial markets, products and participants" should be subject to regulation, especially those that could present a systemic risk. They also renewed calls for supervision of hedge funds and oversight of credit rating agencies. (NOTE: German officials routinely remind the Embassy that they pushed for hedge-fund regulation during their 2007 G-8 and EU Presidencies.) Private banks should build additional capital buffers "in good times" to prepare for economic downturns, the statement added. Executive compensation should be designed to prevent "excessive risk-taking."

¶7. (U) European leaders envisaged a much stronger International Monetary Fund (IMF) and Financial Stability Forum (FSF). They called for an IMF-FSF early warning system to prevent future financial crises. They said an enlarged FSF should embrace emerging economies, and endorsed supervisory colleges to coordinate cross-border financial

institutions. Noteworthy was the specific goal of doubling funds available to the IMF. Details on how the IMF, FSF and other organizations might be reformed to allow for greater participation by emerging economies, however, were not forthcoming.

¶8. (U) Another of Steinbrueck's priorities has been to crack down on tax havens. Last October he made waves by suggesting that Switzerland be blacklisted "because its investment conditions encourage some German taxpayers to commit fraud." At the February 22 Summit, leaders pledged to take action against tax havens and "uncooperative jurisdictions." The Finance Minister's fingerprints were also evident in appeals for "sustainable economic policy." The Chair's Summary advises a return to fiscal austerity "as soon as possible."

INDECISION

¶9. (C) An apparent area of disharmony was on how to best assist eurozone countries facing difficulties refinancing their debt. A contact at the Chancellor's office told Econoff that Eurogroup Chairman Jean-Claude Juncker supported a common eurobond issue among the 16 eurozone members, while the Chancellor did not. Separately, EU Commission President Barroso has said he saw little hope for such a eurobond. (Just before the Berlin meeting, Steinbrueck sounded as if Germany might bail out weaker eurozone members, but his

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spokesperson vigorously denied his ministry is considering any specific scenarios for the time being.) As for economies outside the eurozone, no consensus on how to respond was reached despite reference in the Chair's summary to risks to "the banking sectors in some central and eastern European countries."

COMMENT

¶10. (C) Merkel's and Steinbrueck's main achievement at the "Mini Summit" was to lay down a marker on Germany's key G-20 objectives, most importantly, to promote fundamental international financial reforms and to stem protectionism. No one would claim that the Germans had wrested control of the European agenda away from the British, with their ambitious agenda for the G-20; but at least for a moment, Merkel grabbed center stage and won assent for comprehensive oversight, reform and regulation of financial institutions. This will strengthen her convictions in possible conversations with President Obama ahead of the London meeting. The "Mini Summit" gave the Chancellor an opportunity to showcase her leadership skills in the eyes of the German public, something that won her popularity during Germany's EU and G8 Presidencies. Merkel's SPD Finance Minister did much of the heavy lifting; but this only helped marginalize Merkel's SPD rival for Chancellor, Foreign Minister Frank-Walter Steinmeier, who has been unable to stake out independent territory on economic policy since the current crisis began. It doesn't hurt that Merkel and much of the German public happen to share Steinbrueck's economic philosophy, with restrained spending and lean budgets at the top of the list. If the Grand Coalition succeeds, it can only benefit Merkel in the September elections.

¶11. (U) This cable was coordinated with ConGen Frankfurt. Koenig